MONOPOLIES AND FAIR DEALING.

HAD this paper been written a few years ago it would have been necessary to prove to a hostile audience the prevalence, persistence, and growth of industrial combinations. And in England till quite recently, the great monopolies of America, and the decay of free competition, were set down to the protective tariff; and it was held that if the Americans were so lacking in sense and uprightness as to reject the pure gospel of free trade, the action of the laws of political economy might for a time be suspended by their abnormal misconduct. This explanation contained some ingredient of truth, inasmuch as the protective tariff of the United States probably facilitated and accelerated the great movement towards combination that marked the later years of the nineteenth century; but was never an adequate explanation, some of the greatest combinations being precisely in goods, such as petroleum and coal, which were not protected by the tariff. And now this last feeble defence of decaying theory has been swept away by the rising flood of fact —by the "wave of combination," if I may borrow the phrase of Professor Flux in his most instructive "Presidential Address" of November, 1900, to the Manchester Statistical Society. The sanctuary of free trade has been submerged; and free competition in the very land of Adam Smith and Bentham, of Cobden and Bright, is visibly failing, not merely in those industries which are often assigned to public authorities, such as railways, tramways, electric, gas, and water supply; but also in a multitude of others, such as shipping, banking, insurance, the wholesale and retail liquor traffic, the supply of meat, fish, grain, tobacco, salt, soap, sewing thread, rubber tires, lead pipes, iron bedsteads. Indeed, the "man in the street" can scarcely open a newspaper without finding a notice of some new amalgamation, alliance, or other description of combination, all of which tend towards monopoly as their issue; and our language has symbolized the change in our conditions by raising the word "combine" from being a mere fleeting verb to the solid dignity of a substantive.

Under these circumstances, the task that lies before the economists of the early twentieth century seems threefold; first, to purge their science of doctrines incompatible with facts; secondly, to provide a critical estimate of the power and effects of combination; thirdly, to advise on measures to secure fair dealing in the face of masterful monopolists. Let a few words be said on each of these tasks.

First, then, the elaborate doctrines of normal value and normal earnings based on the assumption of the predominance of free competition must be finally abandoned. Whether at any time, for example in America when Francis Amasa Walker was a boy, and in England when John Stuart Mill was in his prime, such an assumption could have been justified as a useful working hypothesis, giving results capable of correction, need not for our present purpose be discussed. It is enough that such an hypothesis is nowadays not merely unfruitful but sterilizing, being in contradiction to known and pertinent facts. We might as well assume that all laborers, male and female, were so incurably intemperate, that all extra wages paid them above the bare minimum of subsistence must inevitably be spent in drink; and we might work out an elaborate theory on these assumed conditions. They would not be more remote from the real world than those assumed (to take a very conspicuous instance) by Professor Marshall for normal value:

"We assume that the forces of demand and supply have free play; that there is no combination among dealers on either side, but each acts for himself, and there is *free competition;* that is, buyers compete freely with buyers, and sellers compete freely with sellers. But although everyone acts for himself, his knowledge of what others are doing is supposed to be generally sufficient to prevent him from taking a lower or paying a higher price than others are doing. This is assumed provisionally to be true both of finished . . . . goods and of their factors of production, of the hire of labor, and of the borrowing of capital." "Principles of Economics," Fourth Edit., p. 421.

Let us hope that in the Fifth Edition of this great work, which gives us so much help precisely on monopoly prices, these assumptions may disappear, and the lingering mists of Benthamism and *Manchesterthum* be dispelled by the rising sun of the new century. That they need dispelling even on the west of the Atlantic is seen by the example of so able a reasoner

as Dr. C. W. Macfarlane in his volume on "Value and Distribution." For after admirably recognizing the need of bringing economic theories into harmony with facts, and the utter collapse of the ideal of free competition that seemed to Mill about to be realized; after many brilliant criticisms and valuable contributions towards a proper theory of Monopoly, he loses himself at last in a mist, imagining an abstract mobile, homogeneous fund of capital, and an abstract mobile, homogeneous fund of labor, and proceeds to reason about them and their progeny, normal value and normal wages, to the confusion of his readers, and without being able to draw from these phantoms of the imagination any explanation of the historical past or any solution for the urgent problems of the present.

But, lest I be totally misunderstood, let me repeat that I am not complaining of the two writers just mentioned as if they ignored monopolies; on the contrary, as already indicated, they are among the foremost of those who have dealt with the new problems that face us. I am only complaining that, like some of St. Paul's Corinthian converts, they have not sufficiently purged out the old leaven, and lapse at times into language ill-fitting the neophyte, and recalling the unregenerate old pagan days when Mill announced that he only contemplated those cases where value and prices were determined by competition alone; when he declared that only so far as they were thus determined could they be reduced to any assignable law ("Polit. Econ.," Bk. III., Ch. 1, § 5); and when he concluded with faultless logic that the value of peasant-grown or slave-grown produce was anomalous (Ch. VI., § 2 and 3). If he were now alive he would have, on the same principle, to admit that the value of a great deal of other produce was "anomalous," indeed that the whole world was falling into a condition of ἀνομία or lawlessness.

This brings us to the second task for our modern economists, to establish law and order (if we may so speak) in the vast regions that their predecessors had abandoned to anarchy. Instead of refusing to look at any cases where the rule of the market is inapplicable, and free competition ineffective, it appears reasonable to look at all social forces, whose action we

can observe, instead of only one; and while continuing to trace the operation of free competition where it exists, to pay attention to its limits, and to recognize that combination in various forms, and public authority in various forms, and custom in various forms, are forces quite as constant in the determination of prices and often quite as powerful as free competition. Hence to treat them as abnormal or anomalous is radically unscientific. No doubt it is not easy to trace the action of these different forces on each other, and to estimate the total result. It is much easier to say, for example, that railway rates for all items of traffic between any two places must in the long run be such as to allow ultimately all concerned to get their normal profits and normal wages, rather than face the real difficulties of the inquiry as President Hadley and Mr. M. Acworth have faced them. Take the conclusion of the latter (in a lecture delivered at Oxford and published in the *Economic Journal,* September, 1897) as a specimen not of grand empty words, but of a conclusion that is really helpful:

> "Almost the whole railway expenditure is incurred on the behalf of the traffic as a whole. Against the traffic as a whole the entire cost must be charged. The apportionment is, and ought to be, made as between the various items and categories of traffic on the basis of what each item or category can bear. The word 'can' has, however, a very elastic signification. Sometimes it signifies 'can pay and yet leave an advantage to the customer'; sometimes 'will consent to pay rather than turn aside to a rival route'; sometimes 'has been wont to pay'; sometimes even 'ought morally to be asked to pay.' Such is, I believe, a rough analysis of the motives which govern, and economically speaking ought to govern, the practical conduct of rate-making authorities." P. 330-331.

The theory of monopoly, in good truth, is no simple inquiry; but speaking roughly we may notice two broad facts which the discussions of combination have established, and which seem to lead us to a paradox. The first is the immense advantage of combination in preventing industrial waste, and thus lessening the national costs of production. Part of this saving is simply due to combination enabling production to be on a larger scale, and securing the advantages, for example, of elaborate machinery, of its use with scarce any interruption, of specializing faculties, putting each man to what best suits him,

reducing storage to the minimum, utilizing bye-products to the maximum. But another part of the saving is directly due to the absence of competition; advertising and all forms of pushing sales, involving a gigantic waste of goods and faculties, becomes unnecessary; unnecessary also the cross-delivery of goods, as when railway trucks, carriers' wagons, tradesmen's carts, pass each other carrying identical goods in opposite directions. Trade secrets moreover are not jealously confined to a single factory, but can at once be utilized, as Professor Flux has pointed out, in every branch of a great combination. And the motives for fraud, for adulteration, and for pushing the sale of inferior or deleterious goods, if not wholly removed by combination, at least are much weakened. Hence to revert to competition would seem like reverting to horse power for our tramways or to oil lamps for our streets.

But then there comes the second fact, that combination issues in monopoly, and the interest of monopolies is not identical with the interest of the public, which is threatened with divers unpleasing consequences. First and foremost is the endurance of a monopoly price, which means, or ought to mean, a price enhanced by artificial limitation of supply. A monopolist indeed cannot raise his prices *ad libitum;* in the arithmetic of monopoly, as in that of the Customs, twice two may sometimes make one instead of four; short-sighted greed may be defeated by the use of substitutes for the monopolized article, and by shrinkage of demand; not to speak of the strong stimulant given by high prices to an assault on the monopoly. But with fair average prudence, especially for articles for which it is difficult to find a substitute and for which the demand is not elastic, the monopolist can enhance prices considerably above what they would have been in open market; and it is cold comfort when I am paying, say, 30 shillings a ton for household coal instead of 20 shillings, to be told that economic forces are in existence that will never suffer me to be charged 50 shillings or 60 shillings. Then besides the rise of prices, other inconveniences are only too likely to be the issue of monopoly, especially in the forms that it now assumes. Law courts and legislatures have been corrupted; stock exchanges manipulated;

the working classes confronted with arbitrary dominion; inventors compelled to sell their patents to the monopolist at his own price; individuals who incur his enmity exposed to ruin by discrimination in prices. Finally there is the risk that much of the advantage of combination—the saving in costs already mentioned—may gradually be lost, as the monopoly becomes long-established, by the growth of indolence, apathy, and the spirit of routine. And thus the degenerate combination may no longer be able, even if willing, to pay higher wages than in the days of competition, and to charge lower prices; the very materials of what Marshall calls "compromise benefit" ("Principles," p. 549), to be shared between the monopolist and the public are dissipated; instead of the waste of competition there is the still greater loss of national resources being withheld: lands untilled, mines unworked, workshops unbuilt; and in general the rule of few goods and high prices, small traffic and high charges, so that the last state of national production may be worse than the first.

The foregoing reasoning seems to have brought us to a paradoxical conclusion, to the dilemma of wasteful competition or paralyzing monopoly. We must therefore adopt the logical procedure proper to those confronted by a paradox, and must examine whether we have not omitted some important item from our reckoning. If indeed for the purposes of economic reasoning we are to be looked on as noble savages running wild in woods; or if, while admitted to be citizens of a state, we must yet set our hearts and minds against the impertinent interference of kings and ministers; then indeed I have no solution to offer, and must leave the reader to shift for himself as best he can, between (so to speak) the devil and the deep sea. But for those who regard it a matter of prime economic importance that we are members of a civilized state, and who look for a humane and reasonable government as the centre of its energy, there is an obvious issue from the difficulty. For industrial combinations presuppose the existence of law; and as by law they live, so by law they can be controlled. To leave them uncontrolled is no less foolish than to prohibit them altogether; and the obvious aim is to secure for the nation the vast increase

of productive force resulting from combinations, and simultaneously to protect the nation from the inconveniences of their abuse. We need a sieve to allow the finer particles to pass through, while the coarser are excluded. No doubt the details of application present difficulties; and an intimate knowledge of the laws and circumstances of each country are needful before judging of any particular measure, such for example as the Austrian act of 1897, setting restrictions on *Kartellen*. But the general principles for our judgment are not very difficult, and some of them may be formulated as follows:

Let us avoid simple repression or prohibition of Trusts and similar combinations; for if the measures are enforced we injure production: if unenforced (as in America) the law is brought into contempt.

Let us enforce on all combinations full publicity of all prices, charges and payments, so as to strike at the root of unfair and arbitrary discrimination.

Let us enforce on all combinations a special responsibility for those they employ, notably responsibility for insurance against sickness, accident, disablement, old age and disemployment; and let the power be taken from them of arbitrary dismissal of workmen, or arbitrary reduction of wages.

Let us discriminate wisely in favor of coöperative combinations, recognizing in them, not some heaven-sent peacemaker between masters and men, nor some new-found magnified broom for sweeping away mastership, but much rather a suitable means, adapted to modern conditions, of reëndowing the mass of the people with small properties, and of modifying the effects of the Industrial Revolution so far as it turned them into a proletariat.

Last but not least, let us give to authorities, local or central according to circumstances, certain control over prices, such as a voice in fixing price-lists, and a veto or a temporary veto on any great and sudden changes. And if the reader is troubled by the spectre of Adam Smith, he can lay the ghost by repeating as a spell the words of an economist well known on two continents:

"I see nothing for it, but that, in countries where the monopolizing movement is well under weigh, the Government should assume the duty of in some way controlling prices. The principle of public determination of maximum rates and maximum dividends has already been recognized in various countries in various directions; and it will doubtless have to be carried a good deal further." (Prof. Ashley, *Economic Journal,* June, 1899, p. 170.)

Moreover, having once accepted the bill which Professor Ashley has drawn, we find ourselves involved in further obligations. For the habitual control of prices by public authorities implies, unless we are to suffer arbitrary government, that the authorities aim at *fair dealing,* consider the *justum pretium,* fix such prices, wages, charges and payments as *ought* to be fixed if they are to be in accordance with *justice.* The mediæval economists sought to solve such problems; and the enlightened nineteenth century called them fools for their pains; but the problems have come back on us, not even economists being able to alter the nature of man and his surroundings:

Naturam expellas furca, tamen usque recurret.

Here, indeed, at the close of an article, it is not the place to work out a theory of fair dealing. It is enough to indicate a few points of the inquiry. For example, it would be needful to distinguish, whatever terms we used, between individual and social value, the latter implying, as distinct from any private and particular estimate, a *communis æstimatio;* and this general estimate being the important matter for our purpose, because fairness depends on what is common and general. So in Shakespeare (ever the mouthpiece of mediævalism) when Troilus exclaims: "What's aught but as 't is valued?" Hector replies:

But value dwells not in particular will;
It holds his estimate and dignity
As well wherein 'tis precious of itself,
As in the prizer. —"Troilus and Cressida," II., 2.

The general will indeed may make mistakes, and esteem little what is of great importance for the true end of man:

What things there are
Most abject in regard and dear [important] in use,

What things again most dear in the esteem,
And poor in worth! —*Ibid.*, III., 3.

Still, however mistaken may be the general "esteem," yet according as it is high or low, the fair price must be high or low.

Again, it would be needful to set forth how both the utility and the costs of any commodity, just as in a market they are duly considered by the dealers, and in a free and open market issue in a fair price: in like manner can be estimated by experts where there is no market; and how a jury of these experts, namely men "in the trade" could state within reasonable limits what was a fair price. The notion of reasonable limits, let us add, is quite in conformity with the doctrine of the Canonists, who being well aware of the complications of the concrete, and that it is a mistake to draw a hard and fast line between fair dealing and unfair, recognized the elasticity of the *justum pretium*, and that it might be *summum* or *medium* or *infimum*.

Again, we should have to ascertain the real cost of production as distinct (to use Marshall's terms) from the expenses of production, lest the supply-price, which, given the antecedents, is a fair price, may yet imply unfair antecedents. In other words, not merely the private but also the public costs of production must be scrutinized; and if public authorities are, for example, to regulate the price of sugar or indigo, they must look into facts such as those disclosed in a recent Prospectus, giving reasons for the public to believe that "sugar growing in North Behar should prove a very lucrative business indeed"; one chief reason being set forth in a letter to the Directors as follows:

"The planters have perfect control of labor. On these estates which I have visited, the lands together with their villages, owned and leased by the proprietors, are densely populated . . . . and the obtaining rates for skilled and unskilled labor are extremely low. The pay to the field coolie averages about two annas per day, while tradesmen, carpenters, blacksmiths, etc., receive about four annas per diem. For weeding, by women and grown children, the pay is about one anna per day. There never is any lack of labor, and the orders of the manager of the estate are implicitly carried out by the headmen in charge of the various divisions of the cultivation.

"This system of control of labor has been well organized by the indigo

planters in an experience of nearly a century, and can be applied in precisely the same way to the cultivation of sugar cane. I know of no such system of cheap labor elsewhere in the world."

With the advent of humane and reasonable government and the enforcement of fair dealing, such "lucrative business" based on "obtaining rates" of wages that range from a minimum of about a penny a day to a maximum of about fourpence, would pass away like a hideous vision of the night.

The foregoing argument points to the conclusion that for modern economic science one principal work is to ascertain what is fair dealing, what are just prices, to what extent and in what manner payments and charges should be controlled by authorities. And this fortifies the view already advocated by the present writer in this JOURNAL (January, 1897) that economics form a dependency of ethics; that it is a waste of energy to construct a "positive" science of economics separate from the "normative" science; that it is practically impossible to treat ethical pronouncements as a mere side show, or to prevent them pervading the whole scientific exhibition; that in spite of the protest of so excellent a logician as Mr. Keynes ("Scope and Method of Polit. Econ.," 2d Edit'n, p. 55 note), it is necessary to adopt a "systematic combination of economics and ethics"; that we cannot profitably pull warp and woof apart; that man's moral condition and economic life are inextricably interwoven.

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